

The Essential Services Commission

The Commission became the independent economic regulator for Victoria's water and sewerage services in 2004. We had been undertaking a similar role for electricity, gas, ports and rail freight industries since 2002. We are responsible for regulating prices, levels of service and market conduct.

We report publicly on water businesses' performance annually so customers can compare levels of service with other parts of the state. To ensure that businesses comply with regulations, we also publish codes, guidelines, decisions, determinations, performance reports and independent external audits. Our past water price reviews include:

2005 - metropolitan and regional water businesses

2006 - rural water businesses

2008 - regional and rural water businesses and Melbourne Water's drainage and sewerage

2009 - metropolitan retail businesses and Melbourne Water

The 2013 water price review

Every three to five years, the Commission performs a water price review which authorises the prices and service standards for the next regulatory period. The current price review will set the prices from 1 July 2013. In October 2012, the water businesses submitted Water Plans which included the businesses' forecast costs, forecast demand, and the levels of service promised to customers for the third regulatory period (2013-2018, and 2013-2015 for Goulburn-Murray Water). These factors are used to propose prices to be charged over the period.

We have assessed the businesses' proposals in our draft decision. Businesses and customers are invited to participate in the review by attending public meetings, or making written submissions. Public feedback is an important part of the review. We will use your submissions to inform of our final decision. The determinations we publish will then set the maximum prices that businesses can charge over the next regulatory period.

Key issues in the price review include:

- minimising price rise without compromising service levels
- ensuring water businesses continue to pursue service and operational efficiency improvements
- whether businesses have understood customers' expectations and willingness to pay for different service offerings and
- ensuring the financial viability of the water entities.

The water team

Our core team comprises around 12 regulatory analysts. Team members consist of regulatory economists, as well as experienced engineers. We have also engaged additional expert advice such to Deloitte, Cardno, PWC and SKM to assist in assessing forecast expenditure and demand.

Water price review 2008 versus water price review 2013. What's new?

New Customer Contributions (NCC)

Since the 2008 water price review, a new framework for businesses to charge new customer contribution (NCC) was developed. Water businesses have submitted proposals as part of their Water Plans.

Victorian Desalination Plant

Melbourne Water's desalination costs are a significant driver of the increased prices. Melbourne Water has proposed that the full costs of the desalination plant will be paid by customers in the next 27 years, though the plant will have a useful life for a further 23 years after that. We have expressed concern that insufficient attention had been given to assessing the available options for recovering these costs.

The draft decision outlines our analysis and highlights the need for further examination of the benefits and the risks associated with other options that may be available to Melbourne Water. It is important that the water industry, the community and business groups understand that there are important trade-offs to be considered and assess the consequences of the available options.

We require Melbourne Water to resubmit its pricing proposal for the recovery of desalination costs and it has encouraged all relevant parties to work together in developing a response to our draft decision.

For the purposes of the draft decision, we have used Melbourne Water's proposed desalination related cost recovery figures.

Other issues

The current period was overshadowed by drought that required businesses to undertake major investment in new forms of water supply. The third price period (2013-2018) will see reduced spending reflecting the completion of this investment phase. A number of water businesses have also changed tariff structures to reflect changed supply conditions.

How to get involved

We invite the public to comment on our draft decision until 20 May 2013. Public forums will be held around the state to gather your feedback in April and May. Written submissions can be sent by email to **water@esc.vic.gov.au** or posted to Water Price Review, Essential Services Commission, Level 37, 2 Lonsdale Street, Melbourne 3000. More information, including material from past price reviews can be found on the Commission's website **www.esc.vic.gov.au**.

Price review process and timelines

